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SUBJECT: VIETNAM POVERTY REDUCTION SURVIVING ECONOMIC DOWNTURN

REF: A) 08 Hanoi 37 ("Slower Economic Growth, High Inflation"); 08
Hanoi 377 ("Prime Minister Declares War on Inflation");
B) 08 Hanoi 206 ("Frozen Assets: Record Cold Snap Harms Crops,
Livestock, Economy");
C) Hanoi 1391 ("Further Effects of the U.S. Financial Crisis");
D) Hanoi 241 ("Financial Crisis Causing Increased Unemployment");
HCMC 11 ("Falling Demand Prompts Factory Closings")

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¶1. (U) Summary: Despite high inflation and the global economic crisis, Vietnam managed to bring down poverty levels in 2008 to 13.1% from 14.7% the previous year. Vietnam has made dramatic strides in poverty reduction since it began to adopt market economy policies. As the global financial crisis continues and Vietnam faces rising unemployment and economic hardship, there is increasing concern that hard-won anti-poverty gains may begin to slip. However, there is little evidence to date that the poverty rate in Vietnam is increasing. In addition, the "poorest of the poor," already at subsistence levels, are unlikely to sink much lower. At greatest risk are the new middle class and those workers who left agricultural areas to work in factories and are now losing their jobs. Most experts believe that overall poverty levels will continue to fall in Vietnam in 2009, albeit at a slower rate than in recent years, due to continuing GVN efforts to address this problem.
End Summary.

AMBITIOUS POVERTY REDUCTION

¶2. (U) Although the Government of Vietnam (GVN) fell short of its ambitious poverty reduction target of 12% for 2008, it still saw a significant decline in the poverty levels from 14.7% to 13.1%. This was a remarkable achievement in a year filled with high inflation, economic problems (REF A) and natural disasters (REF B). GVN efforts played an important role in this success. State budget investment in poverty reduction and job-creation programs increased by 20% in 2008, and the budget for direct social security assistance reached \$1.1 billion. In spite of continuing economic challenges (REF C), the GVN is again hoping to cut down poverty in 2009, to 12%. Officials from the Labor Ministry (MOLISA) told EconOff they are optimistic this goal can be reached. Most experts, including locally-based World Bank poverty reduction experts, believe that overall poverty levels will continue to fall in Vietnam, albeit at a slower rate than in recent years.

¶3. (U) While the overall rate may decline, certain groups are less likely to see progress. Unregistered or temporarily registered

migrants who have come to work in urban areas are among those vulnerable to slipping back into poverty. World Bank poverty reduction experts told Econoff that this group is likely to increase as job losses continue. Vulnerability in job security is a key risk factor for poverty.

ECONOMIC CRISIS THREATENS GAINS

¶4. (U) Vietnam's poverty reduction efforts face significant challenges as the result of the global economic crisis. As GDP declines and unemployment rises, Vietnamese workers are at risk. MOLISA expects 400,000 people to lose their jobs this year (REF D). The traditional path out of poverty has been for workers to leave rural areas and farming and take salaried positions at factories in urban areas. If these factories close or fire significant number of workers, this pattern will reverse and there will be a flow of people back to countryside.

¶5. (U) Not only are jobs being lost, but the number of new jobs being created is falling as well. Mr. Vu Trung Chinh, Director of the Hanoi Job Promotion Center, told EconOff that at the beginning of 2009, his center had only three to four thousand job vacancies compared to six to seven thousand at the beginning of 2008. Labor Minister Nguyen Thi Kim Ngan said publically that the anticipated target of 1.7 million new jobs in 2009 may not be achieved.

MIDDLE CLASS SUCCESS AT RISK

¶6. (U) Vietnam's urban middle class (those making between \$4,200 to \$6,000 a year) grew by 77 percent from 1999 to 2006, according to TNS Media, the country's leading consumer trends research group. TNS's latest study shows that over a third of urban households now

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earn more than \$6,000 per year. World Bank experts said that if unemployment rises even the middle class could find itself backsliding into poverty.

HOW ROBUST IS VIETNAM'S POVERTY REDUCTION ANYWAY?

¶7. (U) It is important to keep in mind that the GVN has a relatively low bar for its poverty threshold. The poverty line for an individual living in a rural area is approximately 40 cents per day and in urban areas is approximately 50 cents per day. These low levels of income are vulnerable to inflation. The GVN has been considering raising the poverty threshold to 57 cents per day for those living in rural areas and 73 cents per day for those in urban settings to reflect inflationary pressures. According to MOLISA, if the proposal is approved, the poverty rate would increase to between 16% and 17%.

¶8. (U) The World Bank uses definition of poverty as \$1.25 per day, based on the GDP per capita, adjusted in terms of purchasing power parity. Using this standard, the number of people in Vietnam earning less than \$1.25 makes up 21.5% of the population. According to the 2008 Vietnam World Bank Development Report, the poverty rate dropped from 58.1% in 1993 to 37.4% in 1998, 28.9% cent in 2002, and 19.5% in 2004.

COMMENT: STILL A SUCCESS STORY AND A HOPEFUL OUTLOOK

¶10. (U) Comment: If Vietnam can manage some GDP growth this year and avoid massive unemployment, the GVN should be able to forestall an increase in the poverty rate. Moreover, the GVN should be commended for its honesty in factoring in inflation and possibly raising the poverty threshold, even when it knows doing so will send its poverty numbers higher. End Comment.

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